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RATING ACTION COMMENTARY

Fitch Affirms Transportadora de Gas Internacional S.A. E.S.P.'s Ratings at 'BBB'; Outlook Stable

Thu 23 Sep, 2021 - 3:40 p. m. ET

Fitch Ratings - New York - 23 Sep 2021: Fitch Ratings has affirmed Transportadora de Gas Internacional S.A. E.S.P.'s (TGI) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB'. Fitch has also affirmed TGI's long-term senior unsecured debt rating at 'BBB'. The Rating Outlook on the IDRs is Stable.

TGI's ratings reflect the company's strong business position, its moderate exposure to regulatory risk, and expectations of moderate leverage over the medium term. TGI's ratings also reflect its exposure to fluctuations in the Colombia peso that could pressure EBITDA generation in the medium term. Also factored into the ratings is the strong linkage with its parent company, Grupo Energia Bogota S.A. (GEB; BBB/Stable), which almost fully controls TGI.

KEY RATING DRIVERS

Strong Linkage with Parent: Fitch considers the linkage between TGI and its parent company, GEB, to be very strong and, as a result, rates TGI in line with GEB. Fitch believes the linkage to be very strong due to GEB's nearly 100% ownership in TGI, the fact that TGI made up 52.5% of GEB's operating EBITDA in 2020 and the deeply subordinated USD370 million intercompany loan that GEB has extended to TGI. The loan expires in December 2022 and it is Fitch's expectation that the loan will be rolled over at that time. Additionally, investments in Colombia and in midstream businesses, such as TGI's, continue to be a strategic focus for GEB going forward.

Solid Business Position: TGI is the market leader in natural gas transportation in Colombia, in terms of infrastructure length and transported volume. TGI has a 54% market share in terms of kilometers (km) of pipelines. The company has pipelines in key service areas, transporting natural gas from the two most important Colombian natural gas basins to the three most important Colombian cities in terms of population: Bogota, Medellin and Cali. As of June 2021, TGI reported operating 4,033 km of natural gas pipelines that reach a transportation capacity of 849 million cubic feet per day (mmcfpd) in 2Q21, of which 576 mmcfpd, or 68%, is currently firmly contracted.

Low Business Risk: TGI has maintained a low business risk profile, supported by its highly contracted position and limited exposure to volume risks. Historically, more than 90% of its revenues stemmed from fixed charges, that is, not related to the volume of transported gas. This is a result of the nature of its off-takers, around 65% concentrated in natural gas distribution companies, that operates in mature markets with stable demand. TGI's moderate off-taker concentration with four distribution and marketing customers representing roughly 80% of its YTD revenues as of June 2021 is characteristic of the natural gas transportation business. However, this is offset by the high credit quality of its key clients and the lack of complementary infrastructure to transport natural gas in its relevant area.

Increased FX Exposure: TGI will face moderate exchange rate exposure during the rating horizon. Resolution 160 from the Comision de Regulacion de Energia y Gas (CREG) is expected to convert the fixed and variable dollar-based tariff into Colombian pesos beginning in 2022. An estimated 80% of TGI's EBITDA is denominated in dollars in 2021, which is well matched to its financial obligations, which are 100% in dollars. Fitch estimates that during the rating horizon, a 5% peso depreciation would result in a roughly USD17 million EBITDA decline, or a roughly 0.3x increase in gross leverage. Given TGI's relatively low leverage and high headroom, moderate peso depreciation should be manageable for the company.

EBITDA Reduction: Around 33% of TGI's contracted capacity expired at the end of 2020. This is related to the pipeline that transports gas from La Guajira gas fields in the center of Colombia. The production of these fields has been declining in recent years, consistent with their late production stage. As a result, Fitch expects TGI's EBITDA to fall to USD281 million in 2021 from USD346 million in 2020 due to the expiration of these contracts. Additional investments in gas transportation from Magdalena Valley and imported gas to La Guajira would benefit TGI's infrastructure.

Moderate Regulatory Risk: Fitch considers TGI's regulatory risk moderate given Colombia's relatively balanced regulatory framework, which includes the participation of industry players in the tariff setting process. Nonetheless, regulators have developed a new regulatory methodology for the remuneration of the natural gas transportation business, which will lower the weighted average return on capital to between 10% and 11% from 15.69% and in turn would generate some pressures on TGI's EBITDA. Fitch considers TGI's credit profile to be adequate and capable of withstanding some adverse regulatory scenarios and still maintain its investment-grade rating.

FCF Neutral to Positive: Fitch expects TGI's FCF to be neutral to positive over the rating horizon, which strengthen its financial flexibility. Fitch base case for TGI includes downward pressures in EBITDA generation in the medium term, given regulatory reset and reduction in contracted capacity, while capex considers existing assets, in-construction projects and those more likely to be executed by TGI. FCF pressures could stem from additional projects or M&A activities, such as its potential participation in the project to develop the second LNG terminal in Colombia, for which TGI has stated it would establish a joint venture (JV) to participate in the auction process.

Moderate Medium-Term Leverage: Fitch expects TGI's gross leverage to rise to 2.7x in 2021 from 2.2x in 2020 due to a drop in contracted capacity at the end of 2020. Medium-term leverage will fall to 2.1x in 2024 from 2.5x in 2022 due to slowly recovering contracted capacity. The debt balance excludes USD370 million of a deeply-subordinated intercompany loan from GEB, which Fitch does not consider as debt when calculating the company's leverage metrics. Fitch excludes this because under the loan terms, its subordinate position must be maintained until 2022, at which time Fitch expects the loan to be rolled over.

DERIVATION SUMMARY

TGI maintains an investment-grade credit profile, with strong and predictable EBITDA generation, characteristic of pure natural gas transportation companies such as Transportadora de Gas del Peru S.A. (TGP; BBB+/Stable). TGI is also well positioned related to regional peers that operate in the Natural Gas Distribution segment or Liquefied Natural

Gas, such as Gas Natural de Lima y Callao (BBB/Stable), Promigas S.A. E.S.P. (BBB-/Stable) and Gas Natural Quintero (GNLQ; BBB+/Stable).

TGI is rated one notch above Promigas, given its more conservative capital structure, with leverage levels below 3x over the rating horizon, while Promigas' leverage will be 4.1x in 2021 and 3.8x in 2022. Nevertheless, Promigas' business diversification that combines natural gas transportation and distribution, as well electricity distribution strengthen its business position. On the other hand, TGI's ratting are one notch below TGP, as this company has a higher EBITDA visibility, with revenues that derives from long-term ship or pay contracts with an average remaining life of around 13 years, while TGI's average contract length is five years. TGI has stronger credit metrics than GNLQ, however, this is mitigated by GNLQ's lack of exposure to price or volume risk and the longer term of its concession agreement.

TGI's ratings also reflect its strong legal, strategic and operation linkage with GEB. Therefore, Fitch considers it unlikely that both companies will have different credit profiles. Currently, TGI maintains a USD370 million shareholder loan due 2022 with its parent company GEB that Fitch does not consider financial debt for TGI.

KEY ASSUMPTIONS

--The USD370 million shareholder loan with GEB is excluded from TGI's leverage metrics and rolled over upon maturity in December 2022;

--Average contracted levels of 560 mmcfpd during the rating horizon following the expiration of contracts at the Balllena-Barrancabermeja tranche in late 2020;

--Total capex around USD360 million, including maintenance of existing assets and the construction of a new LNG terminal, which will be operated as a JV, during 2021-2024;

--Stable medium-term FX rate of COP3,750 per USD.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--A positive rating action or Outlook revision is unlikely in the near to medium term given the company's expectations of EBITDA pressures and potential elevated capex in the medium term;

--TGI reduces its leverage below 2.5x on a sustained basis after the regulatory tariff reset and the company's investment program is completed, absent any rating constraints from its parent company, GEB, or Colombia's country ceiling;

--GEB's credit rating upgrade could also be positive for TGI's rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A negative rating action on GEB's ratings;

--Negative regulatory developments and/or tariff reviews that lead to a deteriorating credit profile;

--TGI executes higher than expected investments, resulting in sustained gross leverage levels of 4.0x or above on a sustained basis;

--Influence from the company's shareowner that result in a sub-optimal financial/operational strategy that could hurt the company's credit quality;

--GEB's credit quality deterioration that leads to extracting material cash flow from TGI.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Strong Liquidity: TGI's liquidity remains strong, supported by cash on hand, predictable cash from operation and a manageable debt maturity schedule, with the vast majority of the current balance maturing in 2028. In its base case projections, Fitch estimates that TGI will not require external funding during the rating horizon. Fitch expects that the company will roll over its USD370 million intercompany loan from its parent, GEB, and thus will not require external financing at that time.

TGI has some exposure to FX risk since its financial debt is almost fully denominated in USD, while revenues are expected to be entirely denominated in pesos beginning in 2022 following CREG Resolution 160. Fitch expects TGI to be able to absorb moderate changes in the peso exchange rate due to its strong cash flow and high EBITDA margins of between 75% and 80%.

ISSUER PROFILE

TGI is the market leader in natural gas transportation in Colombia. The company operates 4,033 kilometers of natural gas transportation pipelines in Colombia's Andean region that is around 54% of the Colombia's natural gas transportation infrastructure. TGI transports natural gas through its pipelines to the main cities in Colombia, namely Bogota, Medellin and Cali.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Transportadora de Gas Internacional S.A. ESP (TGI)	LT IDR Affirmed	BBB Rating Outlook Stable	BBB Rating Outlook Stable

	LC LT IDR BBB Rating Outlook Stable Affirmed	BBB Rating Outlook Stable
senior unsecured	LT BBB Affirmed	BBB

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Parent and Subsidiary Linkage Rating Criteria - Effective from 26 August 2020 to 1 December 2021 (pub. 26 Aug 2020)

Corporate Hybrids Treatment and Notching Criteria (pub. 12 Nov 2020)

Corporate Rating Criteria -- Effective from 21 December 2020 to 15 October 2021 (pub. 21 Dec 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Transportadora de Gas Internacional S.A. ESP (TGI)	EU Endorsed, UK Endorsed

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